AGARD
3/10/89

National Association of Purchasing Management®

Report On Business®

March 6, 1989
Volume 7, Number 3

Economic Growth Rate Slows

Index Inches Lower to 53%

Price Growth Eases

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

February Report

The economy continued to expand in February, but at the same slowing growth rate exhibited in January, say the nation's purchasing executives in their latest ***Report on Business.*** Although the rate of growth in **New Orders** increased slightly over January, it is still at its lowest in two years. The rate of **Production** growth registered its second consecutive sharp decrease to its lowest since December 1986. **Employment** declined in February after eight consecutive months of increase.

New Export Orders, although continuing to grow, increased at a markedly lower rate of growth. The 69.5% of members who indicated in February that they export is consistent with the 14-month average of 69.3%. Of those who export, 22% reported higher export orders in February, down significantly from 28% in January. The 6% who reported lower export orders is up slightly from the 5% reporting lower in January.

Vendor Deliveries were slower, but again at a lesser pace than during most of the past two years. **Inventories** declined in February for the second consecutive month, although at a much lesser rate than last month. The rate of growth in price increases declined sharply in February and is the lowest since April 1987.

The ***Report*** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The economy appears to have entered a period of slower and more moderate growth than the robust pace of last year. This, coupled with decreased employment and a declining inflation trend, could be signalling a more subdued and healthier economy for this stage of the economic recovery."

PURCHASING MANAGERS' INDEX

Purchasing Managers' Index

January	57.3	August	55.7
February	55.7	September	54.7
March	54.0	October	56.2
April	56.0	November	55.9
May	55.5	December	57.3
June	59.2	January '89	53.2
July	57.9	February '89	53.0

The **Purchasing Managers' Index** edged slightly lower in February to 53.0% from 53.2% in January. Although this is the 31st consecutive month the index has exceeded 50%, it is also the lowest reading in over two years (52.6% in February 1987) for this leading indicator.

A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining.

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

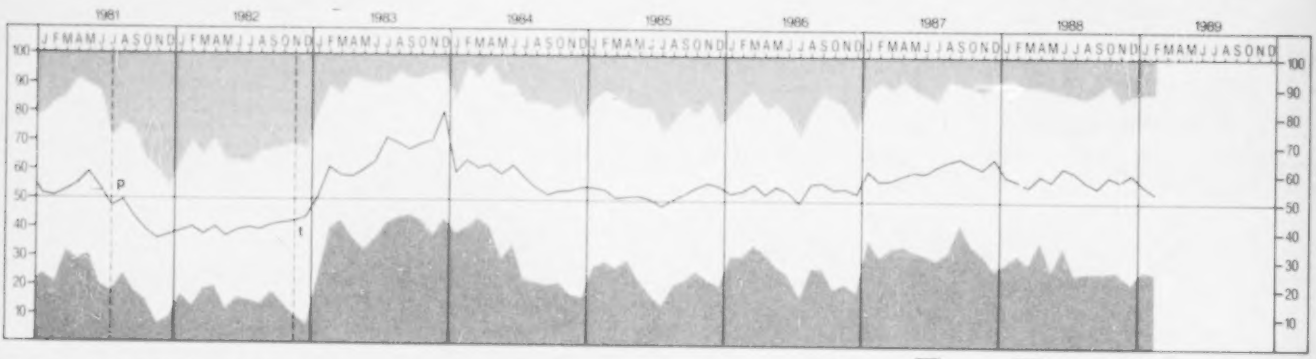
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("p" — July 1981) and trough ("t" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

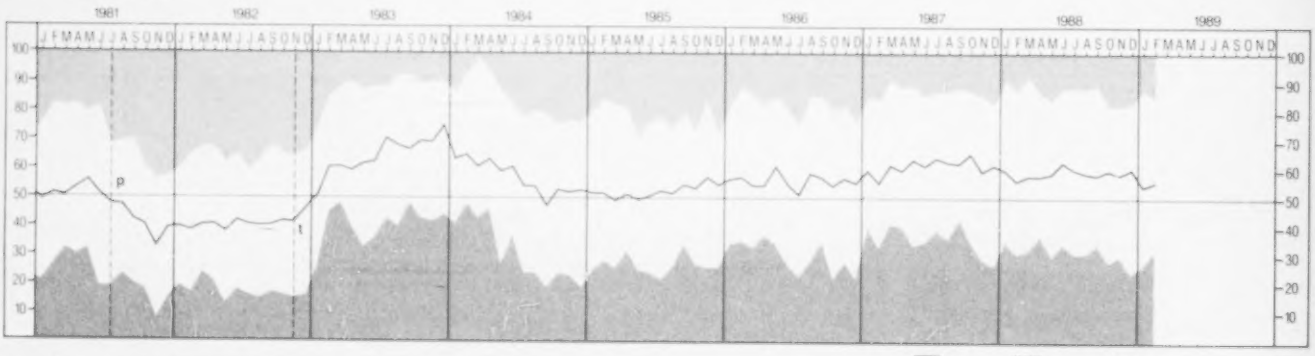
PRODUCTION



February marked the 31st consecutive month in which Production increased. However, the Production index fell to 53.7% from 56.2% last month and 60.0% in December. This is the lowest reported since December 1986 (53.0%). Some members reported that weather-related problems contributed to lower production in February.

Production	%Better	%Same	%Worse	Net	Index
February	26	62	12	+14	53.7
January	27	61	12	+15	56.2
December	22	65	13	+ 9	60.0
November	27	58	15	+12	57.8

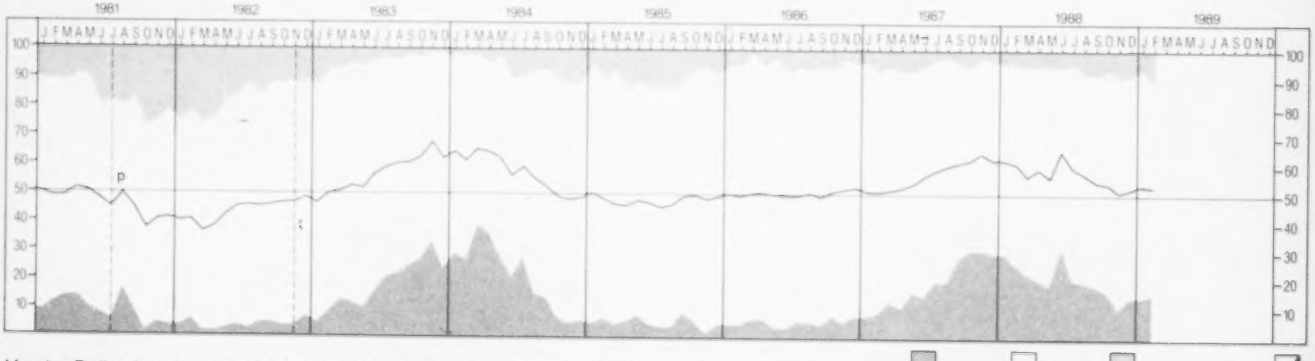
NEW ORDERS



New Orders increased in February for the 45th consecutive month. The New Orders index increased slightly to 55.9% from 54.5% in January, which was the lowest since October 1986 (also 54.5%). The modest improvement was not helped by New Export Orders, which had a declining growth rate in February.

New Orders	%Better	%Same	%Worse	Net	Index
February	32	53	15	+17	55.9
January	27	61	12	+15	54.5
December	24	59	17	+ 7	60.0
November	30	52	18	+12	58.4

VENDOR DELIVERIES



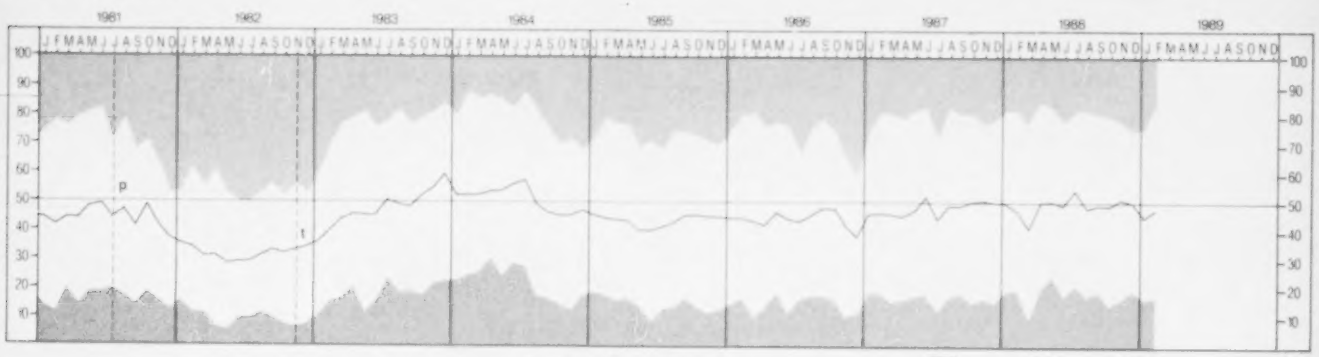
Vendor Deliveries slowed in February for the 29th consecutive month. However, the rate of slowing lessened and the 10% who reported faster deliveries is the most since August 1985 (13%). A number of commodities which have been consistently reported in short supply have become more readily available in recent months.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
February	16	74	10	+ 6	53.3
January	15	79	6	+ 9	54.0
December	15	77	8	+ 7	52.6
November	11	81	8	+ 3	51.6

IN SHORT SUPPLY:

Aluminum (17th consecutive month), **Copper** (6th consecutive month), **Nickel** (2nd consecutive month; used heavily in making stainless steel, plating metals and batteries), **Steel** (20th time in 22 months), **Stainless Steel** (13th time in 14 months), **Castings** (3rd time in 6 months), **Bleached Paperboard** (8th consecutive month), **Plastic Resins** (9th time in 10 months), **Acrylic Acid** (7th time in 8 months; used in manufacturing plastics), **Caustic Soda/Soda Ash** (21st consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Ethylene** (10th time in 11 months; used heavily in making ethylene oxide, plastic resins and glycols), **Ethylene Glycol** (7th time in 9 months), **Phenol** (11th consecutive month; used heavily in making phenolic resins), **Titanium Dioxide** (19th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Miscellaneous Chemicals**, **Rayon** (4th consecutive month), **Polyester**, **Bearings** (7th consecutive month), **Tomato Paste**.

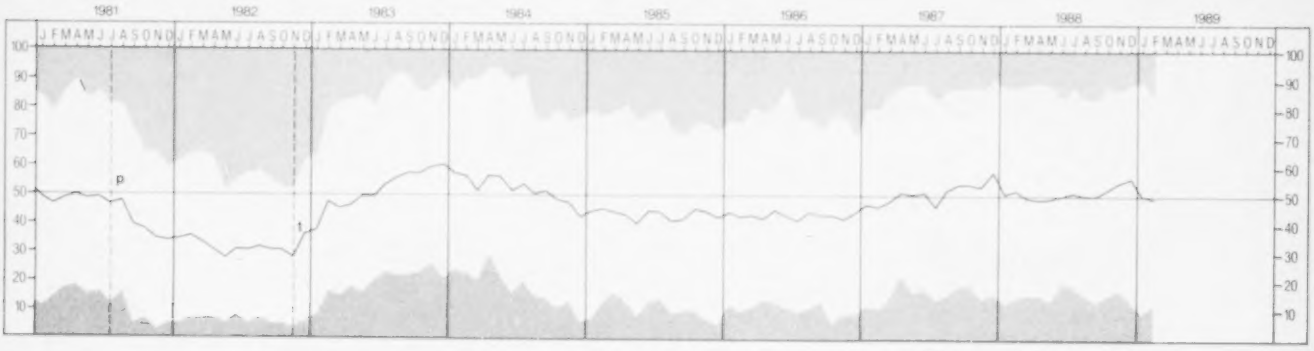
INVENTORIES



Inventories declined in February for the second consecutive month. The Inventories index at 48.1% was up from 45.5% in January, but still indicates no sign of heavy inventory buying by purchasers.

Inventories	%Higher	%Same	%Lower	Net	Index
February	18	67	15	+3	48.1
January	17	59	24	-7	45.5
December	20	55	25	-5	50.8
November	17	61	22	-5	51.8

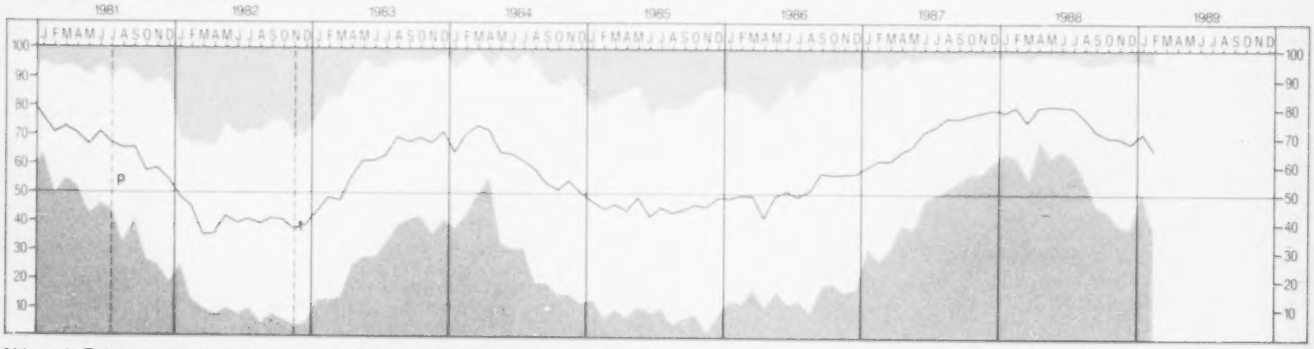
EMPLOYMENT



Employment declined in February after eight consecutive months of increasing. The Employment index at 49.7% is the lowest since May 1988 (49.4%) and is another indicator of the slowing in economic growth.

Employment	%Higher	%Same	%Lower	Net	Index
February	13	72	15	-2	49.7
January	10	80	10	0	50.5
December	14	75	11	+3	56.8
November	18	69	13	+5	55.2

COMMODITY PRICES



Although February marked the 31st consecutive month of price increases, it also was the seventh time in the past eight months that the rate of growth in price increases has declined. The Price index fell sharply to 66.0% from 71.6% in January and is the lowest in 22 months (65.6% in April 1987). Another indicator of this moderating trend in inflation is the increase in the number of commodities reported lower priced in February (7 items), the most since July 1986 (9 items).

Prices	%Higher	%Same	%Lower	Net	Index
February	38	57	5	+33	66.0
January	51	46	3	+48	71.6
December	39	58	3	+36	68.6
November	40	58	2	+38	70.2

UP IN PRICE:

Nickel (9th time in 12 months; used heavily in making stainless steel, plating metals and batteries), **Steel** (29th time in 30 months), **Stainless Steel** (12th time in 15 months), **Steel Products** (12th time in 15 months), **Zinc** (13th time in 14 months; used heavily in metal alloys and as a protective coating for metals), **Bearings** (7th time in 8 months), **Castings** (7th consecutive month), **Tin Cans**, **Printing Paper** (23rd time in 26 months), **Plastic Products** (21st time in 22 months), **Plastic Resins** (18th time in 19 months), **Rubber** (2nd consecutive month), **Caustic Soda/Soda Ash** (27th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Phenol** (5th time in 8 months; used heavily in making phenolic resins), **Miscellaneous Chemicals**, **Polyester** (3rd consecutive month), **Fuel Oil** (3rd consecutive month), **Menthol** (2nd time in 3 months; used heavily in making confectionaries, liqueurs, cigarettes, perfume and cough drops), **Boneless Beef**.

DOWN IN PRICE:

Copper (reported up in price in November for 19th time in 21 months), **Lead** (reported up in price in January for 2nd consecutive month; used heavily in making paints, petroleum, pipe and batteries), **Methanol** (2nd consecutive month; used heavily as a solvent and in synthesizing other chemicals), **Styrene** (reported up in price in July for second consecutive month; used chiefly in making synthetic rubber, plastic resin and plastic), **Polystyrene** (reported up in price in May; used chiefly in making synthetic rubber, plastic resin and plastic), **Polypropylene** (reported up in price in August for 3rd time in 4 months; used heavily in making packaging materials and paper coatings), **Orange Juice**.

BUYING POLICY

Lead times for Production Materials lengthened in February. The number of members reporting lead times of 60 days or less for Production Materials decreased to 76%, down sharply from 84% in January. Members reporting lead times in the meaningful 6 months and longer category for Capital Expenditures declined to 53%, down from 57% in January. Lead times for non-custom Capital Expenditures also decreased, with 18% of members reporting lead times of 30 days and less, down from 20% last month, but still the most since November 1987 (19%). Lead times for Maintenance Repair and Operating (MRO) Supplies were generally shorter. Members reporting lead times of 30 days and less declined to 84%, only slightly less than 85% in January. However, those who reported buying hand-to-mouth did increase to 42% in February, up from 38% last month, and the most since October 1987 (42%).

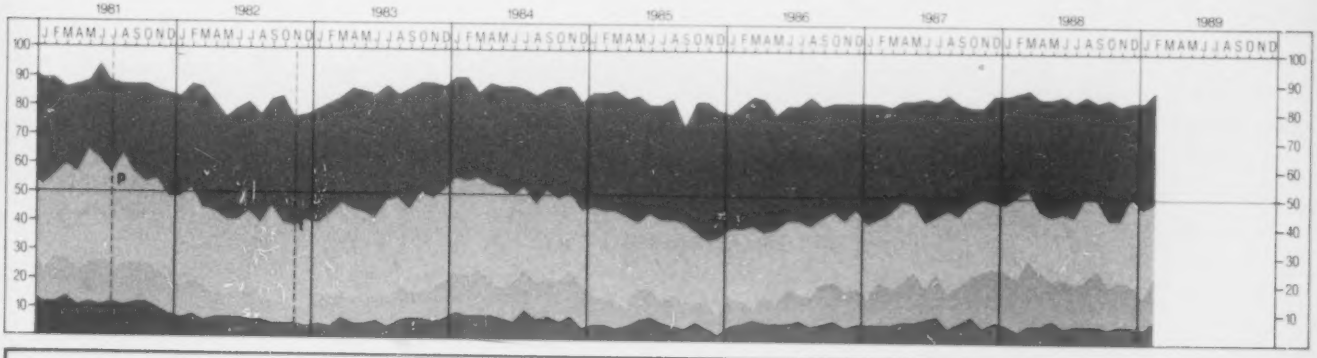
Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
February	12	39	25	16	8
January	16	37	31	11	5
December	16	33	30	15	6
November	17	40	21	16	6

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
February	11	6	9	21	53
January	16	4	8	15	57
December	9	5	14	16	56
November	11	6	11	19	53

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
February	42	42	13	2	1
January	38	47	11	3	1
December	34	48	13	4	1
November	40	46	8	4	2

PRODUCTION MATERIALS



Commodity Report
February, 1989

ENERGY
Prepared by the NAPM Energy Committee. Chair: Howard T. Perley, C.P.M., International Paper, Memphis, TN.

PETROLEUM PRODUCTS: Will OPEC and non-OPEC producers succeed in restricting crude oil production to support prices? Until this becomes clear, the crude oil markets will be volatile within a trading range of $16 to $18 per barrel. Gasoline and distillate prices are stable, however, and residual fuel oil prices continue to weaken.

NATURAL GAS: February free fall in wellhead gas prices has reawakened many producers to the reality of price elasticity when demand fluctuates. With prices dropping almost 35% in one month, sellers are considering long-term contracts. Buyers seeking longer term supplies should find more willing sellers over the next few months before prices strengthen in anticipation of the 1989–90 heating season.

ELECTRIC POWER: Environmental concerns about acid rain and global warming will likely lead to new legislation affecting electric utilities. Be alert to the effect on your local utility, because significant increases in electric rates may result in some states. Controversial issues include limitations on the use of high-sulfur coal, the cost of flue-gas scrubbing in power plants, and whether non-polluting utilities should share in any remedial costs of other utilities.

COAL: Coal pricing remains negotiable. Alternate routing and stockpile levels should be considered during future months in anticipation of predicted low river levels again this summer.

STEEL
Prepared by the NAPM Steel Committee. R.C. Smith, Jr., Group Materials Manager, Kelsey-Hayes Company, Romulus, Michigan.

There are many views concerning the extension of the Voluntary Restraint Agreements (VRA's). Opinions vary even within our NAPM Steel Buyers Group. Following is the opinion of one of our members for your consideration.

After a very profitable year for the Domestic Steel Industry, some segments of the steel-using community are suggesting that VRA's should not be renewed. When the steel market changed from a buyers' to a sellers' market, and off-shore steel became more costly than domestic steel, some in our steel-using community tried to re-establish a relationship with the domestic mills. They found this not an easy task, and sometimes, impossible.

Years ago many of us might have agreed that the Domestic Steel Industry was an aging leviathan that had forgotten how to compete in the world market place. Today, however, the leviathan has become one of the lowest cost producers in the world, has shed one third of its outdated and excessive capacity, has modernized its profitable segments to a world class level, and has started to put pride back into its people and its products.

The result of these changes is a return to profitability, which in turn creates more jobs and makes our country more stable in the world market. It would not be fair to say that the Domestic Steel Industry did this on their own. They had a little help: a change in the yen-dollar relationship, new labor contracts that reduced costs, and the VRA's. But some now say the VRA's should cease, just when our Domestic Steel Industry is on the verge of being able to compete in the areas of price, quality, delivery, and technical innovation.

In order for this renaissance in the Domestic Steel Industry to continue, we must protect our steel industry from products sold at lower prices through foreign government subsidies. If foreign countries can truly compete on a non-subsidized basis, then our Domestic Steel Industry must go back to the drawing board. But if not, the VRA's must be renewed in order to protect our steel industry from unfair pricing practices.

This *REPORT ON BUSINESS* is published monthly by the National Association of Purchasing Management, Inc., 2055 East Centennial Circle, Post Office Box 22160, Tempe, Arizona 85285-2160. Telephone: 602/752-NAPM (752-6276). Telecopier: 602/752-7890. NAPM is the largest purchasing education and research organization in the United States, with close to 30,000 members. The REPORT has been issued by the Association each month since 1931, except for a brief hiatus during World War II. It is distributed 12 times a year to NAPM members. Additional subscriptions are $50 a year for members, $100 for nonmembers. Add $25 outside the United States, Canada and Mexico.

The next issue of *REPORT ON BUSINESS* will be available April 3, 1989.